

~~SECRET~~

25X1

Precis

In order to revitalize Soviet society and improve Moscow's abilities to compete with the West, Gorbachev is pressing reforms that could produce the most significant changes in Soviet policies and institutions since the early years of the Soviet regime:

- At home he wants to create a "halfway house" that would preserve the primacy of the party while creating a political system more tolerant of diversity and debate and an economy more open to market forces.
- On the national security front, he pursues traditional objectives--expanding Soviet influence and advancing communism--but to achieve those objectives he wants to introduce a more flexible approach to defense and foreign policy issues--including constraints on defense spending and a more flexible diplomacy toward the West.

Gorbachev faces formidable political resistance and economic obstacles as he attempts to implement this agenda, and he is only at the beginning of a process which will take years if not decades. The East-West relationship will remain strongly competitive in any scenario, but the nature of the Soviet challenge could differ in important respects:

- The most likely outcome by the 1990s is a rejuvenation of the existing system which produces more competent leadership and some important policy changes, but no significant change in the political system or expanded role for market forces in the economy. This outcome would not yield the decisive improvements in Moscow's position that Gorbachev seeks and the nature of the Soviet challenge to the West would remain largely unchanged.
- There is a fair chance that Gorbachev will succeed in going beyond rejuvenation to implement systemic reform. While the party's leading role would remain unquestioned, the USSR in this scenario would be a substantially different system where individual citizens are better protected from the arbitrary exercise of state power, and the economy is far more responsive to market forces--particularly in agriculture and the consumer sector. This outcome would produce a more formidable political challenge in the near term and some improvement in Moscow's ability to compete in the economic and military arenas toward the end of the century. But the USSR would also be likely to rely more on political instruments and less on military intimidation to achieve its objectives and there could be new opportunities for Western diplomacy on human rights, arms control, Eastern Europe and regional issues.

The fate of reform will be sensitive to the state of East-West relations, but will primarily rest on the outcome of power struggles and economic and social developments inside the USSR.

~~SECRET~~

25X1